

TOTAL PETROLEUM (NORTH AMERICA) LTD.

**TOTAL**

Annual Report  
1974



## TOTAL PETROLEUM (NORTH AMERICA) LTD.

### *Facts at a Glance*

	<u>1974</u>	<u>1973</u>
Proven oil and condensate reserves (bbls.) . . . . .	32,362,601	33,428,552
Oil and condensate production (bbls.) . . . . .	2,307,534	2,413,107
Proven gas reserves (M cubic feet) . . . . .	197,305,000	189,194,000
Natural gas sales (M cubic feet) . . . . .	6,469,466	4,882,617
Net land holdings (acres) . . . . .	4,203,683	4,266,697
Crude oil refined (bbls.) . . . . .	13,493,860	13,566,316
Refined product sales (bbls.) . . . . .	15,753,571	14,122,357
Net earnings . . . . .	\$ 1,868,000	\$ 5,133,000
Earnings per share . . . . .	10¢	51¢
Total revenues and other income . . . . .	\$219,386,000	\$110,601,000
Working capital . . . . .	\$ 10,301,000	\$ 27,952,000
Shareholders' equity . . . . .	\$ 97,054,000	\$ 96,029,000
Total assets . . . . .	\$185,504,000	\$159,308,000

# TOTAL PETROLEUM (NORTH AMERICA) LTD.

## Annual Report 1974

### Corporate Information

TOTAL PETROLEUM (NORTH AMERICA) LTD. is a company incorporated under the laws of Canada, carrying on the business of oil and gas exploration, production, refining and marketing.

#### HEAD OFFICE

639 FIFTH AVENUE S.W.  
CALGARY, ALBERTA T2P 0M9

#### SUBSIDIARY (WHOLLY OWNED)

TOTAL Leonard, Inc.  
East Superior Street  
Alma, Michigan 48801

#### REGISTRARS

THE ROYAL TRUST COMPANY  
Calgary, Regina, Winnipeg,  
Toronto and Montreal, Canada

MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK  
New York, N.Y.

#### TRANSFER AGENTS

MONTREAL TRUST COMPANY  
Calgary, Regina, Winnipeg,  
Toronto and Montreal, Canada

MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK  
New York, N.Y.

#### AUDITORS

PRICE WATERHOUSE & CO.

#### EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE  
MONTREAL STOCK EXCHANGE  
AMERICAN STOCK EXCHANGE

#### ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the head office of the Company, 1200 Standard Life Building, 639 Fifth Avenue S.W., Calgary, Alberta, Canada, at 9:00 a.m. local time on Thursday, May 22, 1975.

#### FORM 10-K

A copy of the Company's annual report to the Securities and Exchange Commission on form 10-K is available without charge to any shareholder upon written request to the Treasurer at East Superior Street, Alma, Michigan 48801, U.S.A.

### Market and Dividend Information

The principal markets for each class of the Company's securities entitled to vote at the Annual Meeting are the Toronto Stock Exchange in Canada and the American Stock Exchange in the United States. A dividend of 17½¢ (U.S.) per share was paid on the Preferred Series A shares for each quarterly period within the two most recent fiscal years. The high and low sales prices of the Common and Preferred Series A shares of the Company during each such quarterly period was as follows:

#### TORONTO STOCK EXCHANGE

		Common				Preferred Series A			
		1	2	3	4	1	2	3	4
1973	Quarter								
	High	9.60	7.35	8.00	7.95	19-3/4	16-1/2	16-3/4	17-1/4
	Low	6.90	6.00	6.45	5.30	15-5/8	14	14-1/4	12-1/4
1974	High	10-3/8	9-3/8	8-5/8	6-3/4	20-1/2	18-3/4	17-1/4	13-5/8
	Low	6-1/2	6-3/4	5-1/8	3-9/16	14-1/4	14	10-3/4	8-1/4

#### AMERICAN STOCK EXCHANGE

		Common				Preferred Series A			
		1	2	3	4	1	2	3	4
1973	Quarter								
	High	10	7-3/8	8-1/8	9	20-1/8	16-1/8	16-5/8	18-1/4
	Low	6-7/8	6	6-9/16	5-1/4	15-3/8	13-1/2	14	12-1/4
1974	High	10-5/8	9-5/8	8-3/4	7	21-1/4	19-1/8	17-1/2	13-3/4
	Low	6-9/16	7-1/16	5-1/4	3-5/8	14	14-1/8	11-1/4	8-3/8



## TO THE SHAREHOLDERS:

Again in 1974 many changes occurred in the situation of the oil industry worldwide and particularly on the North American continent. They were caused as much by political action as by economic factors. At the beginning of the year the general oil shortage situation resulting from the embargo allowed your Company to generate cash in its refinery and marketing operations which was immediately reinvested in exploration prospects. But at the end of the year, because of the high prices of the products due to the high cost of crude oil and to the poor Michigan economy, the demand decreased and our profits were severely affected. This once more reflects the cyclical evolution of this highly competitive and low margin commodity business, very sensitive to small variations around the supply vs. demand equilibrium.

In Canada the price of crude oil and natural gas is artificially set by government imposed price freezes. For example, in Alberta the price of a barrel of crude oil went up from a previously frozen price of \$3.80 in the first quarter of the year to \$6.50 at April 1, 1974. At the same time, because of a dispute between provincial and federal jurisdictions, each seeking to take as much as possible from this money, the industry retention decreased to less than 50¢ per barrel. In British Columbia and Saskatchewan the situation is still worse.

In the United States, the two tier price system remained in effect. So, while the price of so-called "old oil" stayed at a level around \$5.25 per barrel, the price of new, released and stripper oil went up to somewhere between \$11 and \$12 per barrel. Your Company, because of the geographical location of its refinery, has access mostly to "new and released" and "stripper" oil or to Canadian crude, heavily taxed (\$5.20 per barrel) when leaving Canada. Its average cost of crude is much higher than most other refiners and the situation was becoming critical, until the Federal Energy Administration implemented a crude oil cost equalization program.

This last action by the FEA was obviously more than welcome, like some other actions regarding allocation of crude among refiners. But, we must say that other regulations affecting the marketplace and making improvements in the structure of the marketing of our products absolutely impossible, have been very detrimental.

Revenues from all sources totalled \$219,386,000 in 1974, almost twice as much as the \$110,-

601,000 in 1973. Net income, however, was adversely affected by adoption of income tax allocation accounting and by the change to the LIFO method of inventory costing. Both of these changes are more fully described in the financial statements and the notes thereto. Net income in 1974 was \$1,868,000, or 10¢ per share, compared to \$5,133,000, or 51¢ per share in 1973.

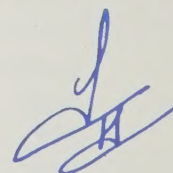
The operating statistics of the Company were much the same as in 1973. Crude oil production declined slightly because of production restrictions in Alberta, but natural gas sales increased sharply. Refinery thruput was down slightly but refined product sales increased in 1974 over the embargo restricted levels of 1973. For details of the operations, please refer to the five year summary and the management analysis of the changes therein.

Exploration activity was considerably increased. The funds generated by operations as well as some of the proceeds from the stock issue of November, 1973 were chiefly devoted to acquiring new, good land positions, principally in the United States. Two important discoveries were made offshore Labrador where we have a 5% interest in permits comprising over 28 million acres. The Labrador basin has now been proven as a high potential hydrocarbon basin. This has considerably increased the value of the assets of your Company.

In November 1974, Mr. Bernard C. Duval resigned, for personal reasons, his function as Vice President - Exploration and Production of the Company. We wish to express, with our regrets, our appreciation to a man who has during his three years of duties, accomplished much, giving a considerable new push to our exploration activities. Your Company is now participating in some of the most promising exploration prospects that still remain on the North American continent. It is by following this route that a great future appears to be in front of us.

Once again we express our appreciation of the quality of the job done by the officers and all the employees of the Company, the continued support of our shareholders and the loyalty and confidence accorded us by our customers.

On behalf of the Board of Directors



Andre M. Jacquin  
President

April 15, 1975



## Exploration and Development

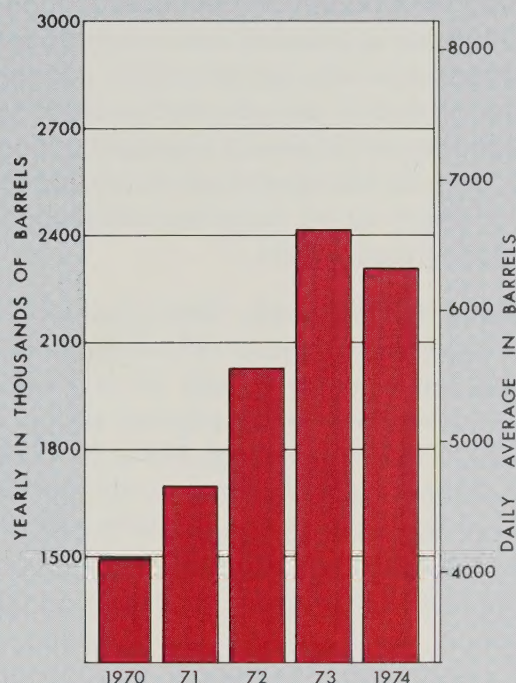
Your Company drilled or participated in the drilling of thirty-four exploratory wells and eight development wells during the year under review. Interests were also held in thirteen wells (eleven exploratory and two development) drilled under farmout by other companies without cost to TOTAL other than acreage contribution. This drilling program resulted in eighteen exploratory successes (fourteen gas wells and four oil wells), two gas development wells and seven oil development wells.

The successful gas development wells are located in the Gilby and Greencourt areas of Alberta. Of the oil development wells, two are located in the Medicine River Field of Alberta and five are on the Niagaran reef trend in Michigan.

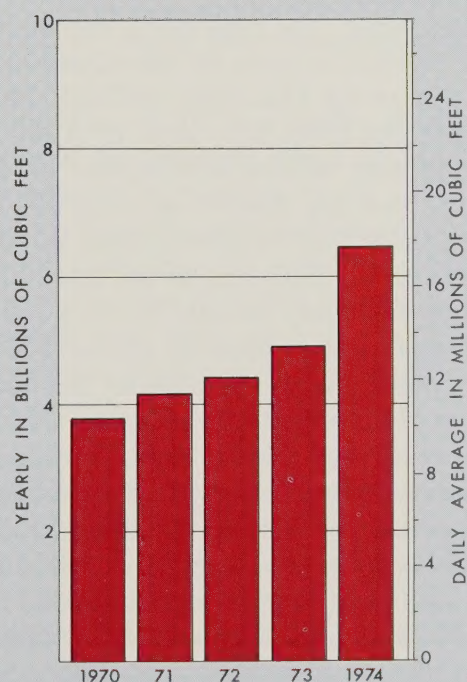
The highlight of the 1974 exploratory program was the drilling and testing on the Labrador offshore. Bjarni H-81, which was suspended in the fall of 1973 and tested in 1974, and Gudrid G-75, a 1974 exploratory well, both yielded large gas flows (13 million cubic feet per day and 20 million cubic feet per day maximum rates, respectively) with condensate on short duration testing. The presence of substantial amounts of hydrocarbons indicated in two out of the three tests drilled to date provides considerable encouragement to the prospectiveness of this area and an aggressive exploration program is planned by the operator for the coming drilling season. Your Company holds a 5% interest in these offshore permits which comprise 28,480,537 acres.

In Michigan, the main exploration highlight in which your Company participated was the Brink-Delorme #1-3 Niagaran reef discovery located in Grant Township, Grand Traverse County. This extended the productive reef trend some five miles to the northeast across lands in which your Company holds interests. Before the year end, two tests located northeast of the Brink-Delorme #1-3 discovery were drilled to further extend the trend, and although both encountered the objective reef as indicated by seismic, they lacked porosity and were abandoned. In the Hamlin Lake area, your Company as of December 31, 1974 had interests in nine oil wells and four gas wells. Three of the development oil wells and two of the gas discoveries were a result of 1974 drilling. Seismic and drilling operations will continue in the Hamlin

### Oil Production



### Natural Gas Sales





area during 1975. At the opposite end of the Northern Niagaran reef trend, to the northeast in Montmorency County, TOTAL participated with a group of companies acquiring an interest in an unexplored 7800-acre lease (the Black River Ranch) which is indicated to be well-situated on reef trend. A seismic program was commenced prior to the end of the year on this block. As of December 31, 1974, your Company had interests in 23 wells in Michigan (twelve oil and eleven gas) of which six oil wells and three gas wells were drilling during 1974.

In the Illinois Basin, your Company continued exploration during 1974 with a seismic program and with the drilling of two wells. A further five wells were supported by acreage contributions. One of the supported wells warranted the running of production casing and testing operations are being conducted to determine the extent of productivity. Another of the supported tests, located in the Indiana portion of this Basin on lands in which your Company has an overriding royalty interest, resulted in a minor oil discovery.

Your Company has acquired a 16 $\frac{2}{3}$ % interest in approximately 800,000 acres in the Sevier Basin region of the State of Utah. Initial seismic work has been completed and drilling is planned for late 1975.

In the sedimentary basin of Western Canada, your Company participated in two oil and two gas development wells and in two oil and ten gas exploratory wells. The exploratory successes were outsteps located in areas of past Company successes such as the Dixonville, Pelican, Joarcam, Greencourt and Little Bow areas of Alberta, and the Tattoo and Windflower regions of British Columbia. New gas discoveries were established in the Pinehurst and Notikewin areas of Alberta, as well as an oil discovery in the Joarcam area which was previously thought to be a gas prospect. An aggressive exploratory and semi-development program had been planned for Western Canada in 1975 to find new prospects and to exploit many of the existing ones. However, the uncertainties and detrimental effects of royalty and tax measures taken by the federal and provincial governments made many of the proposed exploratory and development projects uneconomic. Although some easing of this situation has subsequently occurred in the form of concessions by the provincial governments of Alberta and British Columbia, it is not yet sufficient to allow your

Company to resume the aggressive program previously planned for Western Canada.

Your Company participated with another company during the past year in experimental work on "in situ" recovery of heavy oil from a deposit located in the North Battleford area of Saskatchewan. Initial results of the "huff and puff" steaming on one well have been encouraging and further extensive testing is planned for 1975.

In the Southern part of the United States, a 10% interest has been acquired in a 5,760 acre tract and a 5% interest in two other similar sized tracts in the Mississippi-Alabama-Florida offshore area. Two tracts were being drilled at year-end. One test has since been abandoned and the other is still drilling. The third tract is to be drilled later in 1975. During the latter part of 1974, the Company's Houston division was actively engaged in evaluation work in the South Texas offshore area in preparation for the February, 1975 government lease sale.

Onshore Florida, two blocks comprising 37,315 acres were acquired in the area of the Sunniland and West Felda oil fields.

## Production and Reserves

Crude oil and condensate produced by the Company during 1974 totalled 2,307,534 barrels for an average of 6,322 barrels per day, representing a decrease of approximately 4% compared to the 2,413,107 barrels (6,611 barrels per day) produced the previous year. Natural gas sales, on the other hand, increased by one-third to a total of 6,469 million cubic feet for the year or an average of 17.72 million cubic feet per day.

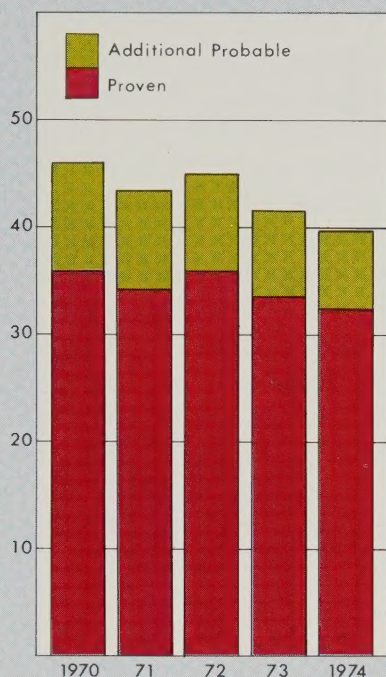
Your Company's estimated proven oil reserves at the end of 1974 amounted to 32,362,601 barrels with estimated additional probable reserves bringing the total to 39,895,494 barrels. This compares with a corresponding estimated aggregate of 41,601,305 at the end of the previous year.

Estimated proven developed gas reserves totalled 197,305 million cubic feet at the end of 1974, representing an increase of slightly more than 4% over the comparative reserve estimate at the end of the preceding year. Estimated additional probable gas reserves at the end of 1974 amounted to 71,342 million cubic feet compared to 51,498 million cubic feet at the end of the previous year.



## Remaining Oil Reserves

MILLIONS OF BARRELS



## Refining

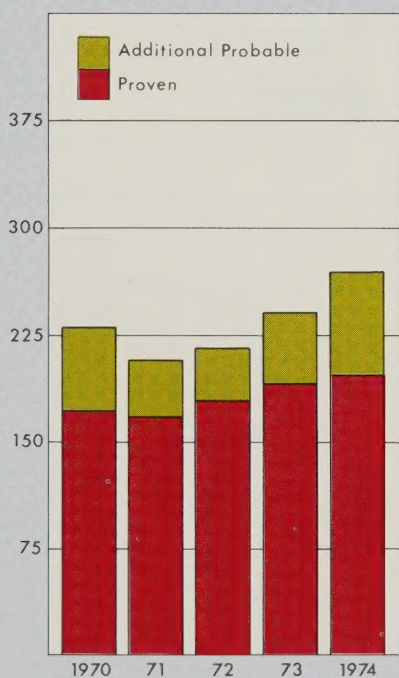
In 1974, the Alma refinery processed 13,493,860 barrels for an average of 36,969 barrels per day compared to 13,566,316 barrels for an average of 37,168 barrels per day for 1973. Record setting crude runs in the third quarter enabled the Company to make up for the reduced crude runs during the May turnaround for clean out and metals inspection.

Crude oil processed during 1974 averaged approximately 61% Michigan and 39% Canadian compared to 44% Michigan and 56% Canadian in 1973. This decrease in Canadian crude oil processed during 1974 was due to the increase in Michigan crude oil production that became available to the Company.

The Federal Energy Administration promulgated a Crude Oil Cost Equalization Program effective November 1, 1974. This program allocates price controlled "old" crude oil equally to all refiners. Each refiner is entitled to include in his crude oil receipts an equal percentage of price controlled crude oil. The Company was entitled to receive 887,898 barrels of price controlled crude oil for the months of November and December. Approximately 300,000 barrels were actually received and, therefore, an excess entitlement existed of approximately 600,000 barrels. This excess was sold to refiners with insufficient entitlements to receive price controlled crude oil.

## Remaining Gas Reserves

BILLIONS OF CUBIC FEET



During most of 1974 a crude oil allocation program was in operation which allowed crude deficient refiners to purchase crude oil from 15 major oil companies who had more crude oil available to them than the national average. We purchased more than 500,000 barrels of allocation crude oil from other refiners at their average acquisition cost. This cost was substantially less than our average crude oil cost.

Construction will begin in early summer of a 44-mile 10" crude oil pipeline between Bay City and Alma that will be completed this fall. This pipeline will provide the Company with additional capacity to transport Canadian and northern Michigan crude oil to Alma and will replace existing pipelines, most of which are 30 to 40 years old.



Your Company is making a concerted effort to meet President Ford's request that everyone strive to reduce his consumption of energy by 15%. We are reviewing all energy using functions in an effort to improve efficiency and expect to meet the 15% goal.

A new agreement was signed with The Oil, Chemical and Atomic Workers Union effective January 8, 1975 covering our hourly employees. This agreement was similar to the national pattern established by other refiners.

## Marketing

Mandatory allocation regulations were in effect for most refined products during 1974. These regulations required your Company to sell at approximately the 1972 volume levels and through the same sales channels as in 1972.

Refined product sales volume in 1974 was 11½% above the 1973 level and 2½% above 1972.

Unleaded gasoline for 1975 automobiles was introduced into our service stations in July, 1974. By the end of the year it amounted to 5% of our branded gasoline sales and was increasing steadily.

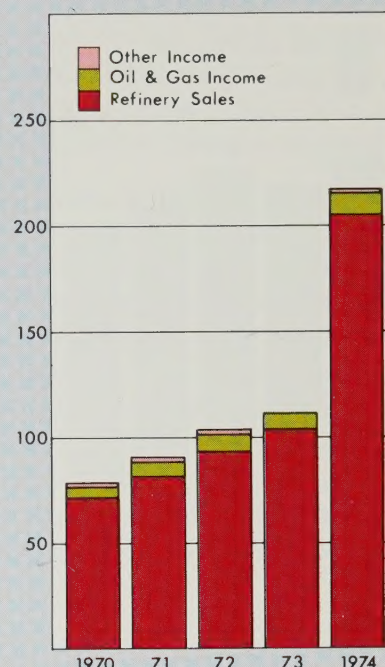
Fuel oil sales in 1974 were slightly higher than in 1973 and 1972. The volume of sales of industrial petroleum products was one-sixth above 1973.

Due to the high price your Company was obliged to pay for crude oil in 1974 and the abundance of refined products available to the market in the latter part of 1974, it became increasingly difficult near the end of the year to sell gasoline and fuel oil profitably. However, the market for industrial petroleum products was stable throughout the year.

Marketing expenses in 1974 were tightly controlled and as a result remained less than 1% higher than in 1973, in spite of extreme inflationary pressures.

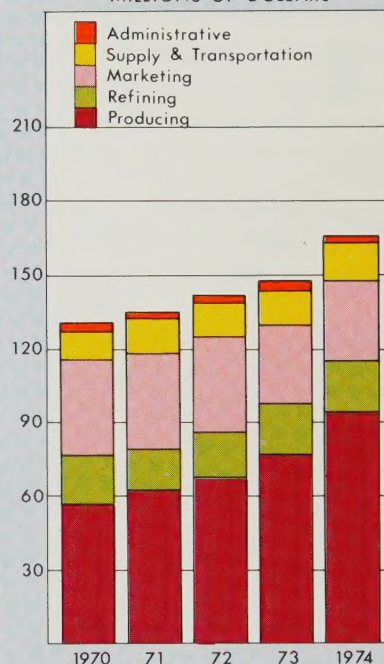
## Gross Income

MILLIONS OF DOLLARS



## Gross Investment

In Property, Plant and Equipment at Cost  
MILLIONS OF DOLLARS





## Financial

Two important changes in accounting policy were made during 1974. Early in the year income tax allocation accounting was extended to all operations of the Company in order to conform to the recommendations of the Canadian Institute of Chartered Accountants. This change was made retroactively, (also per CICA recommendation) thus resulting in a charge to retained earnings at January 1, 1974 of \$8,634,000. That retroactive charge included \$4,071,000 for 1973 operations. Late in the year, but also effective January 1, 1974 the Company adopted the last-in, first-out (LIFO) method for crude oil and refined products inventories. This change decreased inventories by \$10,550,000 and reduced net income by \$5,064,000. In the first half of 1974, costs rose very rapidly and U.S. price controls delayed the pass-through of these cost increases in the market place. LIFO inventory costing shows how the

Company was penalized by these rules. In the last half of 1974, market conditions prevented full pass-through of the increased costs.

The Company is a seller of crude oil entitlements, but has not recorded any such revenue in 1974. The entitlements earned in November (first month of the program) were sold in January, 1975 and have been recorded as a reduction of January crude oil costs. The full effect of the Canadian federal and Alberta income tax and royalty proposals has been reflected in 1974 results.

No major financing arrangements were made during the year. The large capital expenditures program was financed from earnings and from the proceeds of the 1973 share issue. Working capital dropped to \$10,301,000 at the end of 1974.

### CONSOLIDATED LAND HOLDINGS AT DECEMBER 31, 1974

(Acres)

	Petroleum and Natural Gas Leases		Reservations, Permits and Licenses		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta . . . . .	1,009,217	510,157	256,961	165,307	1,266,178	675,464
Saskatchewan . . . . .	51,200	26,264	202,875	98,437	254,075	124,701
British Columbia . . . . .	411,383	206,606	652,734	241,356	1,064,117	447,962
Northwest Territories . . . . .	—	—	1,640,490	814,037	1,640,490	814,037
Yukon . . . . .	—	—	449,624	292,612	449,624	292,612
Arctic . . . . .	—	—	375,506	15,867	375,506	15,867
Labrador (offshore) . . . . .	—	—	28,480,537	1,424,028	28,480,537	1,424,028
Michigan . . . . .	396,862	220,122	—	—	396,862	220,122
Illinois . . . . .	20,036	8,779	—	—	20,036	8,779
East Gulf of Mexico (offshore) . . . . .	17,280	1,152	—	—	17,280	1,152
Montana . . . . .	9,556	9,556	—	—	9,556	9,556
Utah . . . . .	792,293	132,088	—	—	792,293	132,088
Florida . . . . .	37,315	37,315	—	—	37,315	37,315
	<u>2,745,142</u>	<u>1,152,039</u>	<u>32,058,727</u>	<u>3,051,644</u>	<u>34,803,869</u>	<u>4,203,683</u>



## FIVE YEAR REVIEW

	<u>1974</u>	<u>1973 *</u>	<u>1972 *</u>	<u>1971 *</u>	<u>1970 *</u>
<b>OPERATIONS:</b>					
Crude oil and condensate (bbls.)					
Proven reserves at year-end . . . .	32,362,601	33,428,552	35,859,501	34,447,800	36,201,647
Probable reserves at year-end . . . .	7,532,893	8,172,753	9,249,714	8,953,739	9,871,416
Production during year . . . . .	2,307,534	2,413,107	2,028,611	1,696,569	1,486,547
Natural Gas (thousands of cubic feet)					
Proven reserves at year-end . . . .	197,305,000	189,194,000	175,295,000	164,575,000	168,872,000
Probable reserves at year-end . . . .	71,342,000	51,498,000	39,198,000	40,230,000	58,359,000
Sales during year . . . . .	6,469,466	4,882,617	4,437,506	4,128,975	3,847,422
Gross land holdings (acres) . . . . .	34,803,869	36,056,240	38,709,891	38,615,713	38,493,422
Net land holdings (acres) . . . . .	4,203,683	4,266,697	4,290,767	4,436,335	4,608,843
Crude oil refined (bbls.) . . . . .	13,493,860	13,566,316	11,091,413	11,084,578	10,641,645
Refined Product sales (bbls.) . . . .	15,753,571	14,122,357	15,377,590	14,015,976	12,019,762
Inventories of crude oil and refined products (bbls.) . . . . .	2,444,451	2,930,099	1,942,192	2,818,623	2,411,789
Service stations owned or leased long term . . . . .	233	250	312	330	342
TOTAL outlets . . . . .	699	685	913	918	905
<b>FINANCIAL (U.S. Dollars):</b>					
<b>Revenue:</b>					
Net sales of refined products . . . .	\$206,803,000	\$103,934,000	\$ 94,912,000	\$ 83,000,000	\$ 71,323,000
Net sales of crude oil and natural gas .	10,451,000	7,611,000	5,506,000	4,570,000	3,637,000
Other income (expense) . . . . .	2,132,000	(944,000)	748,000	767,000	450,000
	<u>219,386,000</u>	<u>110,601,000</u>	<u>101,166,000</u>	<u>88,337,000</u>	<u>75,410,000</u>
<b>Costs and expenses:</b>					
Purchased crude oil, products and merchandise . . . . .	173,645,000	61,869,000	62,175,000	54,273,000	44,214,000
Operating . . . . .	17,789,000	14,989,000	12,137,000	11,765,000	11,865,000
Marketing and administrative . . . .	14,337,000	13,842,000	15,843,000	13,620,000	11,065,000
Depreciation, depletion and amortization . . . . .	7,705,000	6,930,000	5,977,000	5,395,000	4,397,000
Interest on long-term debt . . . . .	2,325,000	3,694,000	3,320,000	3,061,000	1,473,000
Other interest . . . . .	276,000	73,000	109,000	324,000	388,000
Income taxes * . . . . .	1,441,000	4,071,000	500,000	29,000	628,000
	<u>217,518,000</u>	<u>105,468,000</u>	<u>100,061,000</u>	<u>88,467,000</u>	<u>74,030,000</u>
Net income (loss) . . . . .	<u>\$ 1,868,000</u>	<u>\$ 5,133,000</u>	<u>\$ 1,105,000</u>	<u>\$ (130,000)</u>	<u>\$ 1,380,000</u>
<b>Operating income:</b>					
Exploration and Production . . . .	\$ 4,460,000	\$ 2,692,000	\$ 1,909,000	\$ 1,448,000	\$ 1,096,000
Refining and Marketing . . . . .	3,254,000	15,186,000	7,532,000	4,386,000	5,219,000
Unallocated administrative, interest, income taxes and other . . . .	(5,846,000)	(12,745,000)	(8,336,000)	(5,964,000)	(4,935,000)
	<u>1,868,000</u>	<u>5,133,000</u>	<u>1,105,000</u>	<u>(130,000)</u>	<u>1,380,000</u>
<b>Dividends Paid (assumed in 1970)</b>					
on Series A Preferred shares . . . .	<u>851,000</u>	<u>859,000</u>	<u>861,000</u>	<u>863,000</u>	<u>872,000</u>
Net income (loss) available to Common Shares . . . . .	<u>\$ 1,017,000</u>	<u>\$ 4,274,000</u>	<u>\$ 244,000</u>	<u>\$ (993,000)</u>	<u>\$ 508,000</u>
Net income (loss) per share . . . .	<u>\$ .10</u>	<u>\$ .51</u>	<u>\$ .03</u>	<u>\$ (.15)</u>	<u>\$ .08</u>

\* The years 1970 to 1973 have been restated to give effect to the change in accounting method for deferred income taxes as explained in Note 2 of Notes to Consolidated Financial Statements.



# *Management Discussion*

## *and*

### *Analysis of Summary of Operations*

The operating income of the Exploration and Production Division has steadily improved over the period. Production of crude oil gradually increased through 1973 with 1974 being only slightly less than the 1973 level. Prices for both oil and gas have also steadily improved. The majority of the Company's production is located in Canada where, because of government policies, the net proceeds to producers increased at a much lower rate than that generally experienced in the United States. These increases in revenues have been partially offset by increases in operating and depletion expenses. Both of these expense categories increase as production levels move upward. Depletion expense has also increased over the period because of increases in depletion rate per barrel. This rate is computed by dividing proven reserves into the accumulated undepleted cost of exploration and development. Recent expansion of the Company's exploration program added an abnormally high amount of lease acquisition costs which in turn increased the depletion rate per equivalent barrel.

The operating income of the Refining and Marketing Division has varied widely over the five year period, reflecting the rapid changes in its environment. Sales volumes substantially increased from 1970 to 1971 with the entry into the metropolitan Detroit, Michigan market in late 1970. Volumes decreased in 1973 when scarcity of supplies developed and products previously purchased from other refiners were no longer available. In 1974 these products were

again available because of the United States mandatory allocation regulations.

Prices had the most significant impact on Refining and Marketing operations during the period. A trend toward stabilization of gasoline prices began in 1972 and continued through mid-1974 after several years of wide-spread, crippling price wars. The detrimental effects of these wars was felt most in 1971 after the entry into the Detroit market. Heavy price competition for gasoline returned and was extended to other products in the latter part of 1974 as demand decreased and most suppliers began pricing their refined products below levels allowable under government price ceilings. Because the crude oil available to the Company included a ratio of price controlled "old" oil far below that of its competitors, the Company was unable to compete profitably at the market price levels. The crude oil cost equalization program instituted in late 1974 will provide a partial remedy for this situation.

A more detailed listing of the changes between years follows in succeeding paragraphs.

Revenues in 1974 increased 98% over 1973. Net sales of refined products increased by 99% principally as a result of increases in selling prices, but also because of an 11.6% increase in sales volume. Sales of crude oil and natural gas were higher by 37% despite a 2% decrease in equivalent barrels sold. Other income (expense) for 1973 includes a provision for loss on disposal of



properties of \$1,650,000 (see Note 3 of Notes to Consolidated Financial Statements). Other income for 1974 also increased as compared to 1973 because of higher levels of interest earned on short term investments, the funds being partially provided by proceeds from the late 1973 sale of common shares.

Cost of crude oil, products and merchandise increased by 181% in 1974 as compared to 1973, principally as a result of increased prices, but also including the effect of the aforementioned increased sales volumes. Costs for 1974 are \$10,550,000 higher under the last-in, first-out inventory cost method adopted in 1974 (see Note 2 of Notes to Consolidated Financial Statements) than they otherwise would have been.

Operating expenses for 1974, which include refining, transportation and producing expenses, increased by \$2,800,000, approximately 19% over the preceding year. Substantially all of this increase is in refining expenses, resulting principally from increased wages and an abnormally high cost refinery turnaround. The refinery expenses also increased because of increased gasoline additive usage necessitated by the diverting of high octane stocks from gasoline to military jet-fuel and because of increased electrical energy costs. Marketing and administrative expenses were \$495,000, or approximately 4% higher in 1974 as a result of general price level increases. The decrease in interest expense in 1974 of 31% resulted from a decrease in the level of borrowed funds. Approximately \$18 million in long-term debt was prepaid in late 1973 with funds received from the sale of common shares.

Depreciation, depletion and amortization increased by \$775,000 from 1973 to 1974. While the portion of this caption representing depreciation of refining, marketing and other plant and equipment decreased due to retirements and individual items becoming fully depreciated, the portion representing depletion of costs of petroleum and natural gas interests increased. The depletion provision was higher because of an increase in the depletion rate per barrel from \$1.28 in 1973 to \$1.59 in 1974. This increase was partially offset by the 2% reduction in production volume.

Revenues increased in 1973 by 9% over 1972. An increase in selling prices, partially offset

by an 8% decrease in sales volumes, caused an increase in net sales of refined products of 10%. Sale prices of crude oil and natural gas also increased and the quantities of oil and gas sold increased by 18%, giving a total increase in such sales amounts of 38%. As previously mentioned, other income (expense) for 1973 included a provision for loss of \$1,650,000.

Total cost of purchased crude oil, products and merchandise declined by \$306,000 (less than 1%) in 1973 as compared to 1972. This decrease is the net effect of the 8% decrease in sales volume and increased unit costs. The Company had not yet adopted the last-in, first-out (LIFO) method for inventory valuations in 1973 and, therefore, a portion of the increased unit costs realized in 1973 were included in the valuation of the year-end inventories.

Operating expenses in 1973 were 23% higher than the related amount for 1972. A significant portion of this increase was caused by increases in operating levels. Crude oil and natural gas production quantities and producing expenses increased by 18% and 41%, respectively. The quantity of oil refined and refining expenses each increased by approximately 22%.

Marketing and administrative expenses in 1973 were \$2,001,000 less than the preceding year. Direct marketing expenses were reduced by more than \$1,000,000 as a result of further reorganization of the TOTAL Brand Division and the gradual phasing out of advertising as product supply tightened. Bad debt expense decreased by \$1,252,000 from the abnormally high provision in 1972. Interest expense in 1973 reflects both increased average outstanding indebtedness and increased interest rate, especially for borrowings which fluctuate with the prime rates, as compared to 1972.

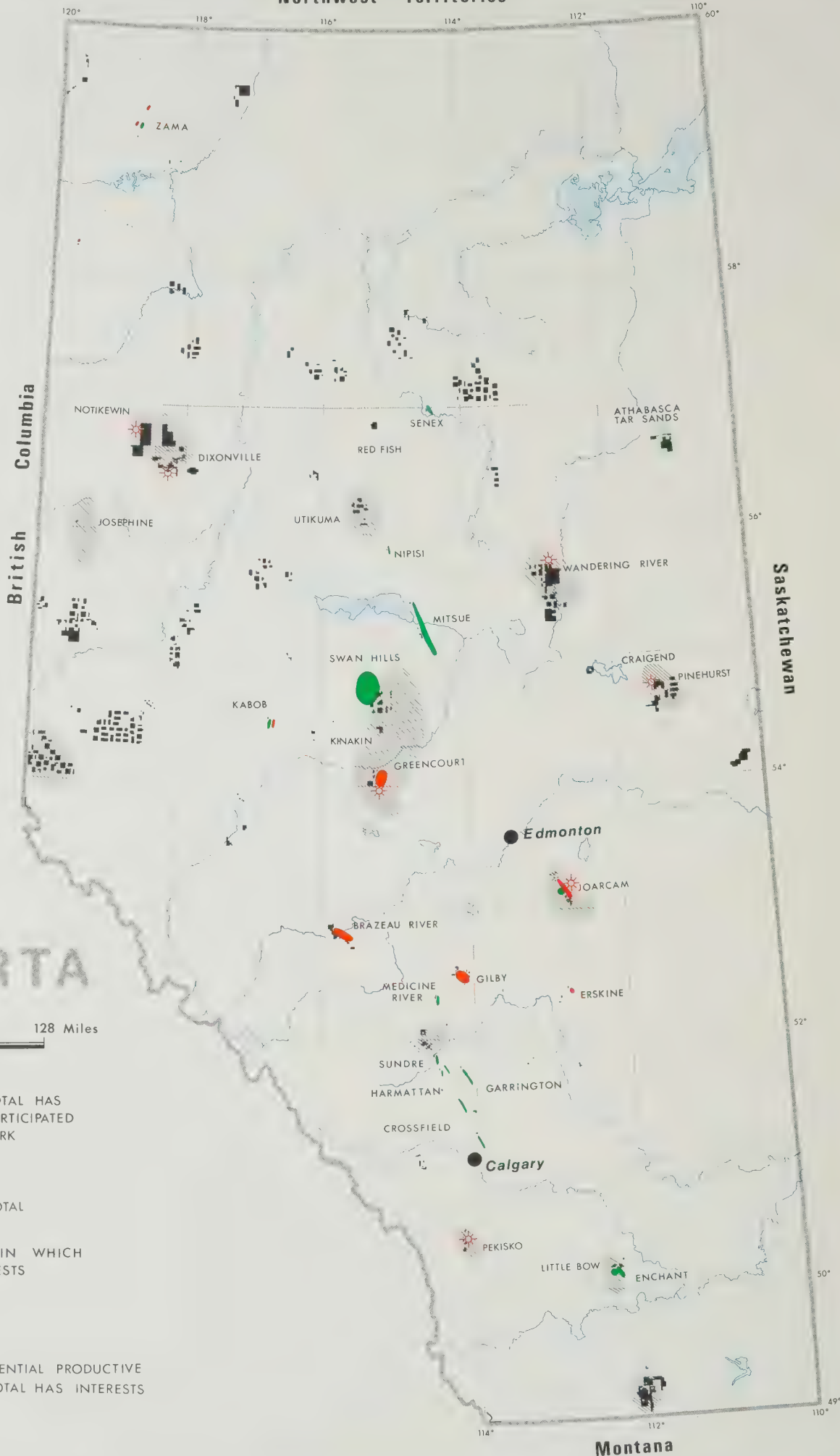
Depreciation, depletion and amortization increased by \$953,000 from 1972 to 1973. Similar to the condition described above in comparing 1973 to 1974, this amount includes an increase in the depletion expense for petroleum and natural gas interests net of a small decrease with respect to other property, plant and equipment. Both the increase in production quantities of 18% and an increase in depletion rate from \$1.06 in 1972 to \$1.28 in 1973 contributed to the increase in depletion expense.



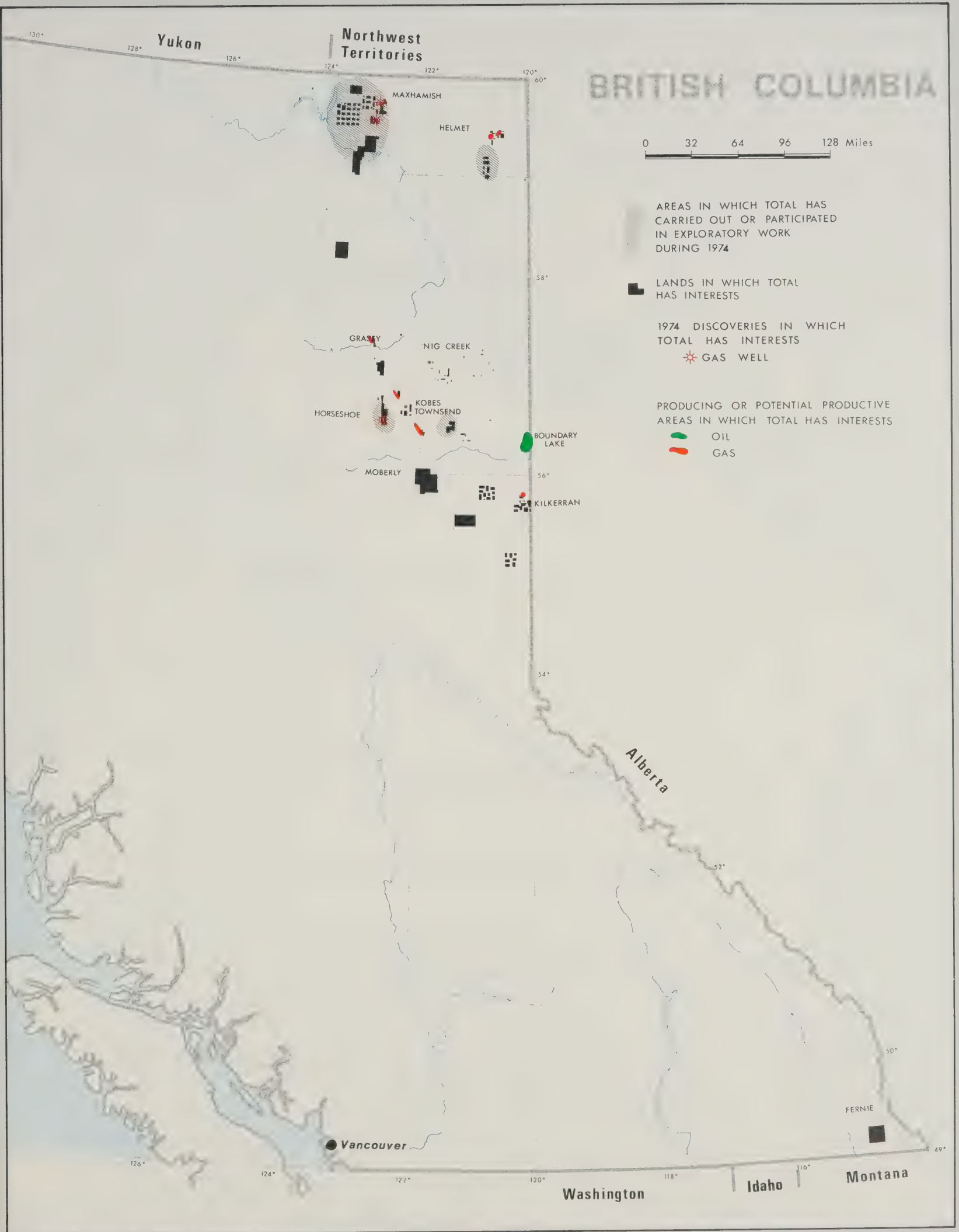




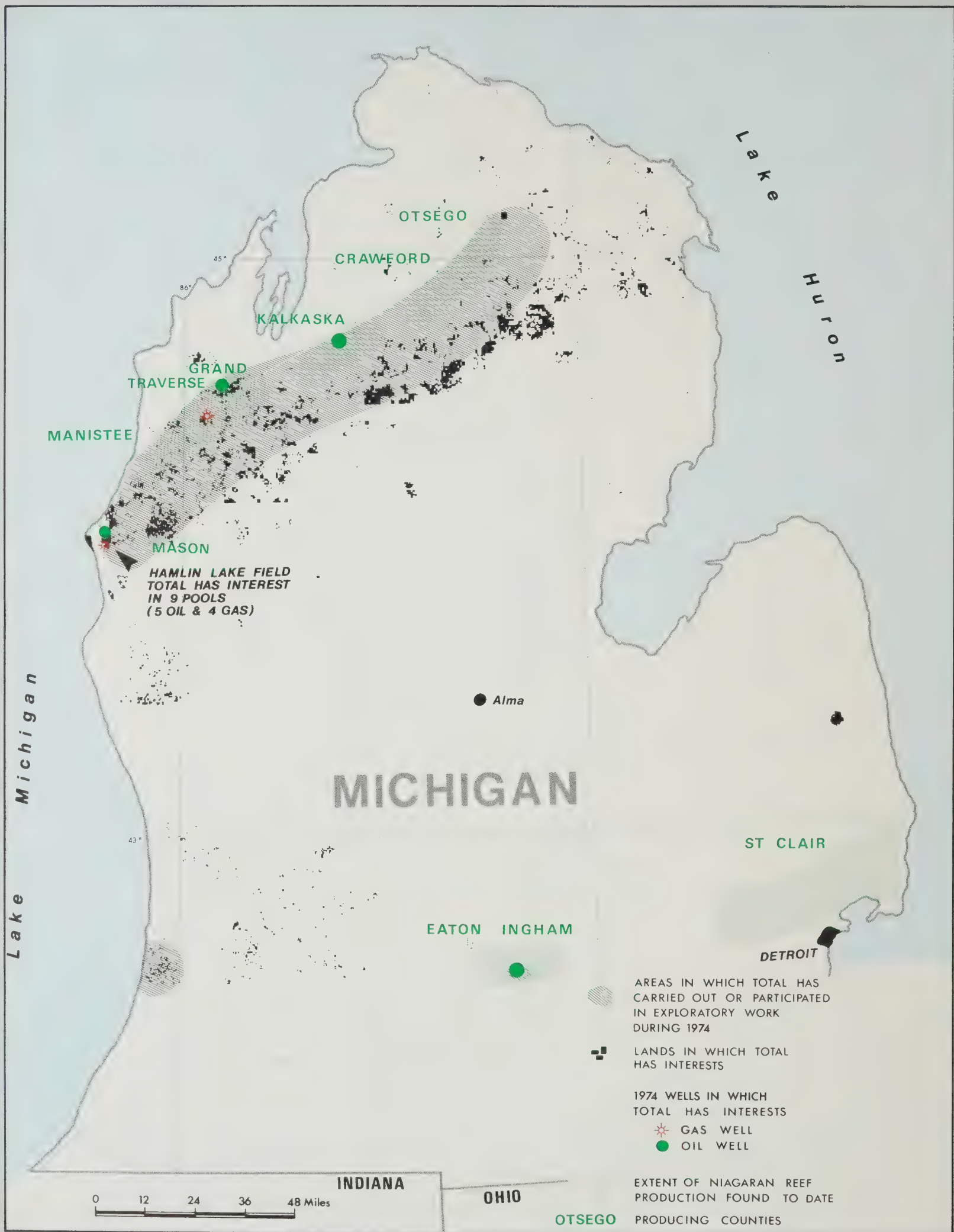
# Northwest Territories













TOTAL PETROLEUM (NORTH AMERICA) LTD.  
AND SUBSIDIARIES

Consolidated Statements of Income  
and Retained Earnings

(United States Dollars)

I N C O M E		Year Ended December 31	
	<u>1974</u>	<u>1973</u> <i>(restated)</i>	
Revenue:			
Net sales of refined products . . . . .	\$206,803,000	\$103,934,000	
Net sales of crude oil and natural gas . . . . .	10,451,000	7,611,000	
Other income (expense) (Note 3) . . . . .	<u>2,132,000</u>	<u>(944,000)</u>	
	<u>219,386,000</u>	<u>110,601,000</u>	
Expenses:			
Purchased crude oil, products and merchandise . . . . .	173,645,000	61,869,000	
Operating . . . . .	17,789,000	14,989,000	
Marketing and administrative . . . . .	14,337,000	13,842,000	
Depreciation, depletion and amortization . . . . .	7,705,000	6,930,000	
Interest on long-term debt . . . . .	2,325,000	3,694,000	
Other interest . . . . .	276,000	73,000	
Income taxes (Notes 1, 2 and 6) . . . . .	<u>1,441,000</u>	<u>4,071,000</u>	
	<u>217,518,000</u>	<u>105,468,000</u>	
Net income for the year . . . . .	<u>\$ 1,868,000</u>	<u>\$ 5,133,000</u>	
Net income per share (Note 8) . . . . .	<u>\$ .10</u>	<u>\$ .51</u>	
R E T A I N E D E A R N I N G S			
Balance, beginning of year as originally reported . . . . .	\$ 23,416,000	\$ 15,071,000	
Adjustment to reflect change in accounting principle (Note 2) . . . . .	<u>(8,634,000)</u>	<u>(4,563,000)</u>	
Balance, beginning of year as restated . . . . .	14,782,000	10,508,000	
Net income for the year . . . . .	<u>1,868,000</u>	<u>5,133,000</u>	
	<u>16,650,000</u>	<u>15,641,000</u>	
Dividends on Series A Preferred shares . . . . .	851,000	859,000	
Balance, end of year . . . . .	<u>\$ 15,799,000</u>	<u>\$ 14,782,000</u>	



## Consolidated Balance Sheets

(United States Dollars)

## December 31

16



## Liabilities, Deferred Credits and Shareholders' Equity

December 31

	<u>1974</u>	<u>1973</u> <i>(restated)</i>
<b>CURRENT LIABILITIES:</b>		
Accounts payable . . . . .	\$ 45,392,000	\$ 17,323,000
Accrued taxes . . . . .	2,997,000	2,836,000
Other accrued liabilities . . . . .	1,235,000	1,890,000
Current portion of long-term debt (Note 5) . . . . .	2,998,000	2,258,000
	<u>52,622,000</u>	<u>24,307,000</u>
LONG-TERM DEBT (Note 5) . . . . .	22,485,000	23,858,000
<b>DEFERRED CREDITS:</b>		
Deferred income tax provision . . . . .	9,825,000	8,634,000
Deferred production income and other . . . . .	3,518,000	6,480,000
<b>SHAREHOLDERS' EQUITY:</b>		
Capital Stock (Note 7)		
Authorized —		
5,000,000 Preferred shares of \$20 (U.S.) par value each, issuable in series, of which 1,303,000 shares have been designated as \$.70 (U.S.) Non-Cumulative Preferred shares, Convertible Series A		
15,000,000 Common shares of the par value of \$1 (Can.)		
Outstanding —		
1,209,333 Series A Preferred shares (1973 - 1,227,436) . . . . .	24,187,000	24,549,000
10,366,053 Common shares (1973 - 10,328,847) . . . . .	9,857,000	9,819,000
Contributed surplus (Note 7) . . . . .	47,211,000	46,879,000
Retained earnings . . . . .	15,799,000	14,782,000
	<u>97,054,000</u>	<u>96,029,000</u>
<b>COMMITMENTS (Note 10)</b>		
	<u>\$185,504,000</u>	<u>\$159,308,000</u>



TOTAL PETROLEUM (NORTH AMERICA) LTD.  
AND SUBSIDIARIES

## Consolidated Statements of Changes in Financial Position

(United States Dollars)

	Year Ended December 31	
	<u>1974</u>	<u>1973</u> <i>(restated)</i>
Financial resources were provided by:		
Operations —		
Net income for the year . . . . .	\$ 1,868,000	\$ 5,133,000
Income charges (credits) not affecting working capital in the year:		
Depreciation, depletion and amortization . . . . .	7,705,000	6,930,000
Deferred income taxes . . . . .	1,441,000	4,071,000
Provision for loss on disposal of properties . . . . .		1,433,000
Financial resources provided by operations . . . . .	11,014,000	17,567,000
Additional long-term borrowings . . . . .	2,042,000	5,073,000
Proceeds from sales of future production . . . . .	2,511,000	6,024,000
Sales of properties . . . . .	1,252,000	1,849,000
Issuance of Common shares . . . . .	8,000	21,910,000
Other . . . . .	24,000	254,000
Total financial resources provided . . . . .	<u>16,851,000</u>	<u>52,677,000</u>
Financial resources were used for:		
Capital expenditures —		
Petroleum and natural gas interests and production equipment . . . . .	19,909,000	9,245,000
Refining, marketing and transportation . . . . .	4,398,000	3,076,000
Other . . . . .	247,000	371,000
Long-term debt paid or reclassified to current liabilities . . . . .	3,415,000	21,756,000
Dividends paid . . . . .	851,000	859,000
Reduction of deferred income . . . . .	5,682,000	911,000
Total financial resources used . . . . .	<u>34,502,000</u>	<u>36,218,000</u>
Increase (decrease) in working capital . . . . .	<u>\$(17,651,000)</u>	<u>\$ 16,459,000</u>
Changes in components of working capital:		
Working capital, beginning of year . . . . .	\$ 27,952,000	\$ 11,493,000
Increase (decrease) in current assets:		
Cash and short-term investments . . . . .	(7,698,000)	14,264,000
Accounts and notes receivable . . . . .	17,265,000	(618,000)
Inventories . . . . .	(72,000)	11,544,000
Prepaid expenses and other . . . . .	1,169,000	410,000
	<u>10,664,000</u>	<u>25,600,000</u>
(Increase) decrease in current liabilities:		
Accounts payable and other accrued liabilities . . . . .	(27,414,000)	(10,655,000)
Accrued taxes . . . . .	(161,000)	(717,000)
Current portion of long-term debt . . . . .	(740,000)	2,231,000
	<u>(28,315,000)</u>	<u>(9,141,000)</u>
Working capital, end of year . . . . .	<u>\$ 10,301,000</u>	<u>\$ 27,952,000</u>



TOTAL PETROLEUM (NORTH AMERICA) LTD.  
AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### 1. ACCOUNTING POLICIES:

The significant accounting policies followed by the Company and its subsidiaries are presented here to assist the reader in reviewing the financial information contained in this report.

**Principles of Consolidation** — The consolidated financial statements include the accounts of all subsidiaries.

The Company presents the consolidated financial statements in United States dollars because the majority of the transactions, and the major portion of the working capital and long-term debt of the consolidated companies, are in that currency. Canadian assets and liabilities are translated at the rate of exchange in effect at the end of the period except that Property, Plant and Equipment and noncurrent liabilities are translated at the prevailing rates at dates of acquisition. Operating results for the period are translated at the monthly average rate of exchange during the year; depreciation, depletion, and amortization included in operating results are translated at historical rates. Unrealized exchange adjustments, which are not material, are deferred to the extent of net gains.

Inventories are valued at the lower of cost or net realizable value. Cost of inventories of crude oil and refined products is determined by the last-in, first-out method (Reference is made to Note 2 for further information). Cost of inventories of merchandise, materials and supplies is determined by the first-in, first-out method with respect to merchandise and by the average cost method for materials and supplies.

Property, Plant and Equipment is carried at cost.

All costs of exploring for and developing oil and gas reserves are capitalized and charged to operations over the life of estimated future production (proven reserves) on the unit-of-production method. This method has been followed consistently by the Company since 1965 and by subsidiaries since dates of acquisition. Proceeds of disposals are applied in full against such costs.

Depreciation and amortization are provided using the straight-line method based on estimated useful lives of assets.

Income Taxes included in the consolidated financial statements are computed on the basis of (Reference is made to Note 6 for further details):

- (i) not providing for taxes which would be payable upon transfer of undistributed earnings of subsidiaries since management believes that such earnings will not be transferred in the foreseeable future;
- (ii) providing deferred taxes under the tax allocation method of accounting for income taxes whereby the provision for income taxes each year is computed on the basis of depreciation, depletion and certain other charges recorded in the accounts rather than the related amounts claimed as deductions in the companies' tax returns.

Investment tax credits are applied as a reduction of income tax expense in the period earned.



Excise Taxes collected from customers are excluded from the Consolidated Statements of Income.

Sales of purchased crude oil are deducted from the related purchases in the Consolidated Statement of Income.

Pension Plans cover substantially all of the Company's employees. Current cost and accruals for prior service costs (accrued over periods from 21 to 30 years) are funded currently.

## 2. ACCOUNTING CHANGES:

### Deferred Income Taxes

At the instance of the Canadian Provincial Securities Commissions and in accordance with the recommendations of the Canadian Institute of Chartered Accountants, in 1974 the Company adopted, with respect to exploration and development expenditures (and Canadian lease acquisition costs), the income tax allocation method of accounting whereby provisions for income taxes are based on income reported in the accounts. Previously the income tax provisions were computed on the basis of claiming exploration and development expenditures (and Canadian lease acquisition costs) to the extent they were allowable deductions for tax purposes regardless of the treatment followed in the accounts; deferred taxes were provided for all other items.

Also in accordance with the recommendations of the Canadian Institute of Chartered Accountants, the financial statements of prior periods have been restated to apply the new method retroactively. This retroactive change resulted in a charge to retained earnings at January 1, 1974 of \$8,634,000. This amount represents the accumulated difference between the deferred income taxes which would have been recorded in prior years had the adopted policy been followed in such years and the deferred income taxes actually reported. Net income for 1973 has been restated to include a deferred income tax provision resulting in a reduction in net income of \$4,071,000 or \$.41 per share. Net income for 1974 has been reduced (before giving effect to the change in inventory methods described below) by \$5,478,000 (\$.43 per share) because of this change.

### Inventory Method

Effective January 1, 1974 the Company changed the method of determining the cost of inventories of crude oil and refined products from the first-in, first-out method to the last-in, first-out method to more closely match current costs with current revenues in the statement of income. The effect of this change was to decrease inventories at December 31, 1974 by \$10,550,000 and net income by \$5,064,000 (\$.44 per share) for the year then ended. It is not practical to compute a pro forma effect on income for prior periods or a cumulative effect on retained earnings from this change in accounting method.

## 3. PROVISION FOR LOSS UPON SALE OF PROPERTIES:

On August 7, 1973, the Company determined to make a charge of \$1,650,000 to its "Other income (expense)" account. The charge was made because the Company closed (or intended to close) and proposed to sell 65 of its retail properties. The stations to be sold were only marginally profitable and, in the opinion of management, their continued operation was undesirable. The assets to be sold consisted of land, buildings and service station equipment. The amount of the charge to "Other income (expense)" represented the difference between the net book value of the assets to be sold (approximately \$4,016,000) and the estimated amount to be realized from the sale (\$2,584,000) plus expenses net of revenues expected to date of closing. At December 31, 1974 and 1973 the estimated realizable value of the remaining unsold locations is reflected in the "Realizable value of property held for sale" account in the consolidated balance sheets.



#### 4. PROPERTY, PLANT AND EQUIPMENT:

Property, Plant and Equipment classified by functional groupings is as follows (see also Note 5 for debt secured by property):

	1974	1973
Petroleum and natural gas interests . . . . .	\$ 87,863,000	\$ 72,080,000
Production equipment . . . . .	6,289,000	4,870,000
Refining . . . . .	21,420,000	19,735,000
Marketing . . . . .	33,813,000	33,048,000
Supply and transportation . . . . .	15,324,000	14,166,000
Other . . . . .	3,408,000	3,292,000
	<u>168,117,000</u>	<u>147,191,000</u>
Less — accumulated depreciation, depletion and amortization * . . . . .	<u>49,282,000</u>	<u>45,062,000</u>
	<u>\$118,835,000</u>	<u>\$102,129,000</u>

\* Including accumulated depletion related to petroleum and natural gas interests of \$18,849,000 and \$17,207,000 at December 31, 1974 and 1973, respectively.

#### 5. LONG-TERM DEBT:

The following summarizes the consolidated long-term debt:

Note payable in quarterly installments of \$150,000 plus interest at prime rate plus 1% (maximum 9%) to September 1979 . . . . .	\$ 2,850,000
First real estate mortgage notes (lien on acquired property) due in quarterly installments of \$125,000 to 1977 and \$175,000 from 1978 to 1982, at prime rate plus 1% . . . . .	5,000,000
Notes payable in annual installments of \$600,000 to March 1, 1977, at 5½% . . . . .	1,800,000
Note payable, due in quarterly installments of \$100,000 plus interest at prime rate plus ¾% to September 1979 (certain oil and gas properties pledged) . . . . .	1,900,000
Note payable on June 30, 1977 at prime rate plus 1¾% (maximum 8½%) . . . . .	4,000,000
Other secured debt, at 4% to 9¼% . . . . .	9,805,000
Other notes payable, at 6% to 8½% . . . . .	<u>128,000</u>
	<u>\$25,483,000</u>
Less, 1975 maturities . . . . .	<u>2,998,000</u>
	<u>\$22,485,000</u>

Minimum annual maturities of long-term debt for the next five years are:

1975 - \$2,998,000	1977 - \$6,926,000	1979 - \$2,241,000
1976 - \$2,943,000	1978 - \$2,499,000	

At December 31, 1974 the Company or its subsidiaries had unused commitments from various banks for future borrowings aggregating \$15,000,000. Borrowings under such agreements would be at interest rates from ½ of 1% to ¾ of 1% above prime. Commitment fees on the unused available credit are ½ of 1%. Under terms of the commitment agreements \$10,000,000 will expire in September 1975 and \$5,000,000 in January 1977.

#### 6. INCOME TAXES:

Under Canadian income tax law most exploration and development expenditures, including resource property acquisition costs, are deductible on various bases which generally have the effect of permitting such deductions to be made for tax purposes in advance of their being charged off in the books. Capital cost allowances for depreciable assets are also deductible in advance of depreciation charged in the accounts. Tax laws in the United States contain provisions which may have a similar effect. As a result, no

income taxes were actually payable for 1974 although, as explained in Note 1, provision has been made in the accounts for the taxes deferred as a result of such deductions exceeding expenses charged in the income statement. At December 31, 1974 the Company had approximately \$13,300,000 of unclaimed drilling and exploration expenditures and approximately \$5,300,000 of undepreciated capital costs available for Canadian tax purposes in future years. In addition, an estimated loss carryforward of \$7,500,000 is available to reduce United States taxes which would otherwise be payable. Upon utilization, the benefits of these carryforwards will be credited to the deferred income tax provision in the balance sheet.

Under regulations now proposed to be effective May 6, 1974, Canadian depletion allowance at 25% of "resource profits" is subject to a limit of \$1 of allowance for every \$3 of "eligible expenditures". At December 31, 1974 eligible expenditures available for future depletion allowance amounted to approximately \$2,000,000.

On November 18, 1974 the Minister of Finance of Canada introduced budgetary proposals in the House of Commons to amend the Income Tax Act. Several of these proposals, some of which are retroactive to May 6, 1974, will substantially increase the income taxes of petroleum companies. The two most costly proposals are to include in taxable income any royalty and similar payments to governments, and to defer the deduction of development expenses over a period of several years. The effect of these proposals is somewhat mitigated by reductions in the rate of income tax applied to resource production profits. On December 18, 1974, the Premier of Alberta responded to this action by proposing certain tax rebates and royalty reductions intended to give some measure of relief from the new Federal tax levies. Neither the Federal nor the Alberta amendments have been enacted as yet and some of the proposals have not been defined well enough to permit precise computation of their effect. However, the 1974 provision for deferred income taxes in the accompanying financial statements takes all of the foregoing proposals into account, and is therefore \$200,000 greater than would otherwise have been required.

At December 31, 1974 and 1973 undistributed earnings of subsidiaries amounted to \$18,659,000 and \$19,071,000, respectively. Taxes payable upon distribution, which would amount to approximately 15%, have not been provided since management believes that such earnings will not be distributed in the foreseeable future.

## 7. CAPITAL STOCK, CONTRIBUTED SURPLUS AND SHARE OPTIONS:

Changes in issued capital stock and contributed surplus are summarized below:

	<i>Par Value</i>		
	<i>Series A Preferred Shares</i>	<i>Common Shares</i>	<i>Contributed Surplus</i>
Balance, January 1, 1973 . . . . .	\$24,595,000	\$6,518,000	\$28,224,000
Conversion of 2,292 Series A Preferred shares into 4,584 Common shares . . . . .	(46,000)	5,000	41,000
Exercise of stock options (14,500 shares) . . . . .	—	14,000	73,000
Sales of 3,287,601 shares, net of expenses . . . . .	—	3,282,000	18,541,000
Balance, December 31, 1973 . . . . .	24,549,000	9,819,000	46,879,000
Conversion of 18,103 Series A Preferred shares into 36,206 Common shares . . . . .	(362,000)	37,000	325,000
Exercise of stock options (1,000 shares) . . . . .	—	1,000	7,000
Balance, December 31, 1974 . . . . .	<u>\$24,187,000</u>	<u>\$9,857,000</u>	<u>\$47,211,000</u>

Each Series A Preferred share is convertible at any time, at the option of the holder, into Common shares at the rate of two Common shares for each Series A Preferred share converted, such rate of conversion being subject to adjustment in specified circumstances. Series A Preferred shares may be redeemed by the Company after December 31, 1975 at \$20 per share.



At December 31, 1974, options to purchase 17,500 Common shares of the Company, at \$6.00 and \$6.30 (Can.) per share were outstanding to officers. The options expire on March 30, 1976 and are exercisable cumulatively during the duration of the options and may be exercised only so long as the holders continue in the employ of the Company.

Options to purchase 24,250 Common shares were cancelled or expired during 1974.

#### 8. EARNINGS PER SHARE:

Earnings per share reflected in the statement of income are calculated pursuant to United States practice rather than Canadian practice since this results in more conservative amounts (referred to as "fully diluted earnings per share" under Canadian practice).

For 1974 earnings per share are based on the weighted average of Common shares outstanding. Common equivalent shares were antidilutive. Dividends on the Series A Preferred shares are deducted from net income in 1974 in calculating earnings per share. Earnings per share for 1973 are computed on the weighted average of the Common shares outstanding during the period plus common equivalent shares represented by shares issuable upon conversion of Series A Preferred shares. The dilutive effect of share options was insignificant in both 1974 and 1973. The average shares used in calculation of earnings per share was as follows:

	<u>1974</u>	<u>1973</u>
Common shares . . . . .	10,350,399	7,584,074
Assumed conversion of Series A Preferred shares . . . . .	—	2,455,686
	<u>10,350,399</u>	<u>10,039,760</u>

Basic earnings per share, pursuant to Canadian practice, are calculated as described above for the 1974 amount and were \$.56 for 1973.

Dividends paid to the Series A Preferred shareholders aggregated \$851,000 in 1974, and \$859,000 in 1973.

#### 9. PENSION PLANS:

Pension expense for all plans was \$860,000 in 1974 and \$649,000 in 1973. Unfunded prior service costs aggregated \$1,150,000 at December 31, 1974.

#### 10. COMMITMENTS:

The present value of future rentals under all long-term agreements (excluding leases of oil and gas properties) approximates \$10,000,000 at December 31, 1974. Minimum annual rental payments on the above leases are approximately \$1,250,000 per year through 1979, \$1,000,000 per year for 1980 through 1984, \$600,000 per year for 1985 through 1989 and \$275,000 per year for 1990 through 1993.

Aggregate rental expense, including short-term rentals but excluding leases of oil and gas properties, was \$1,791,000 in 1974 as compared to \$1,602,000 in 1973.

Amounts included above related to certain long-term lease agreements are as follows:

<u>Types of Property Leased</u>	<u>Present Value of Future Rentals</u>	<u>Expiration Dates</u>	<u>Average Interest Factor</u>
Manufacturing facilities . . . . .	\$5,189,000	1987	7.0%
Pipeline and storage facilities . . . . .	2,779,000	1993	6.5%
Marketing properties . . . . .	663,000	1975-1990	5.9%
	<u>\$8,631,000</u>		

Rental expense on these leases was \$995,000 in 1974 and \$849,000 in 1973. Minimum annual rental payments are approximately \$1,000,000 per year through 1979, \$950,000 per year for 1980 through 1984, \$600,000 per year for 1985 through 1989 and \$250,000 per year for 1990 through 1993. If these leases were capitalized, the effect on net income would not be significant.

#### 11. ACCOUNTS PAYABLE:

Accounts payable at December 31, 1974 includes \$24,263,000 due an affiliate for purchases of crude oil at market prices.

#### 12. STATUTORY INFORMATION:

The total direct remuneration of directors and senior officers of the Company in 1974 was as follows:

	<i>Directors</i>		<i>Officers</i>		<i>Officers who are also Directors</i>
	<i>No.</i>	<i>Amount</i>	<i>No.</i>	<i>Amount</i>	
Total Petroleum (North America) Ltd.	9	\$29,200	4	\$138,100	
TOTAL Leonard, Inc.	1	12,000	4	233,800	1
	<u>10</u>	<u>\$41,200</u>	<u>8</u>	<u>\$371,900</u>	<u>1</u>

### Report of Independent Accountants

TO THE SHAREHOLDERS OF  
TOTAL PETROLEUM (NORTH AMERICA) LTD.

We have examined the consolidated balance sheets of Total Petroleum (North America) Ltd. and its subsidiaries as of December 31, 1974 and 1973, the related consolidated statements of income and retained earnings and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In 1974, the Company adopted the income tax allocation method of accounting with respect to exploration and development expenditures. This change, which is more fully described in Note 2 to the consolidated financial statements, has been applied retroactively and the financial statements for the year ended December 31, 1973 have been restated.

Also in 1974, the Company changed to the last-in, first-out method of determining costs for inventories of crude oil and products as more fully described in Note 2 to the consolidated financial statements.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Total Petroleum (North America) Ltd. and its subsidiaries at December 31, 1974 and 1973, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, referred to in the second preceding paragraph and except for the change, with which we also concur, referred to in the preceding paragraph.

Detroit, Michigan  
February 7, 1975

*Price Waterhouse & Co.*



# TOTAL PETROLEUM (NORTH AMERICA) LTD.

## DIRECTORS and OFFICERS

<u>Name</u>	<u>Office</u>	<u>Principal Occupation</u>
JAMES W. GLANVILLE	Director and Chairman of the Board	Senior Managing Director of Lehman Brothers, Inc.; New York, N.Y.
ANDRE M. JACQMIN	Director and President	President of the Company; President and Director of Total Leonard, Inc.; Alma, Michigan
REID BRAZELL	Director	Formerly Chairman of the Board and Chief Executive Officer of the Company and of Total Leonard, Inc.; now retired; Frankfort, Michigan
MARTIN E. CITRIN	Director	Petroleum Marketing Consultant, Bloomfield Hills, Michigan
F. CAMPBELL COPE, Q.C.	Director	Partner of the legal firm of Ogilvy, Cope, Porteous, Montgomery, Renault, Clarke & Kirkpatrick; Montreal, Quebec
ETIENNE L. DALEMONT	Director	Managing Director of Compagnie Française des Pétroles; Paris, France
PHILIPPE DUNOYER DE SEGONZAC	Director	Manager of Operational Planning and Control and Co-ordinator of North American Operations for Compagnie Française des Pétroles; Paris, France
JOSEPH-CAMILLE GENTON	Director	Director of Finance for Compagnie Française des Pétroles; Paris, France
LINDEN J. RICHARDS	Director	Oil and Gas Exploration Consultant; Chairman of the Board of Quintana Exploration Co.; Calgary, Alberta
DAVID L. TORREY	Director	Senior Vice-President and Director of Pitfield, Mackay, Ross & Company Limited, Inc.; Montreal, Quebec
PAUL H. GUTKNECHT	Vice-President and Treasurer	Vice-President — Finance and Treasurer of the Company; Alma, Michigan
KENNETH R. BUCKLER	Vice-President	Vice-President — Manufacturing, Supply and Transportation of the Company; Alma, Michigan
JOHN E. FAWKE	Vice-President	Vice-President — Marketing of the Company; Detroit, Michigan
WILLIAM G. TUCKER	Vice-President and Secretary	Vice-President — Administration, Secretary and General Counsel of the Company; Calgary, Alberta
ROGER H. EDMUNDS	Vice-President	Vice-President — Exploration, Calgary Division of the Company, Calgary, Alberta
WILLIAM F. KELLOCK	Vice-President	Vice-President — Production of the Company; Calgary, Alberta
DON W. GODFREY	Assistant Secretary	Assistant Secretary of the Company; Alma, Michigan
COLIN S. MACDONALD	Assistant Treasurer	Assistant Treasurer of the Company; Calgary, Alberta
CLIFTON D. BENGTON	Assistant Secretary	Assistant Secretary of the Company; Calgary, Alberta





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**TOTAL PETROLEUM  
(NORTH AMERICA) LTD.**

**TOTAL**

**INTERIM REPORT**

SIX MONTHS ENDED JUNE 30

**1974**



## TO THE SHAREHOLDERS:

During the first half of 1974, net income after full provision for deferred income taxes increased to \$4,990,000, or 39 cents per share. In the first six months of 1973, net income after restatement for deferred income tax provision was \$2,005,000, or 21 cents per share.

Your management is pleased with the improvement in 1974 over 1973, but must repeat that margins are likely to be lower during the remainder of the year.

TOTAL Leonard, Inc. has access to very little price-controlled "old" oil and relies heavily on Canadian crude oil which is now as expensive for a U.S. refiner as any crude oil in the world. Gasoline is plentiful in the U.S. so your Company's gasoline margins are squeezed between price competition with major companies and high cost crude oil. It is hoped that the Federal Energy Administration will soon implement one of the several proposals before it for equalization of crude oil costs among U.S. refiners. Better still of course, would be for Government to completely abandon its price controls.

## EXPLORATION AND DEVELOPMENT

During the first half of the year your Company drilled or participated in the drilling of 31 exploratory wells in various areas of Alberta, northeast British Columbia, Illinois and Michigan and, in addition, participated in two successful oil development wells in Michigan. The exploratory program resulted in six gas and two oil discoveries and 23 dry holes. Two wells were drilling at the end of the period.

In Michigan your Company participated in the Brink-Delorme No. 1 - 3 Niagaran reef oil discovery, located in Grant Township, Grand Traverse County. On production testing, this well has flowed at a rate of 645 BOPD. This well has extended the Niagaran productive reef trend by some three miles to the northwest across an area in which your Company has good lease representation.

Besides testing the seismic anomaly on which Brink No. 1 - 3 was located, the drilling of this well also served, in conjunction with previously

conducted seismic programs, to evaluate lands offered for open auction sale by the State of Michigan on June 3, 1974. As a result, TOTAL was successful with others in acquiring some 29 parcels offered in Grant Township and the adjoining Colfax Township in Benzie County.

On Parcel No. 1009, TOTAL alone bid \$1,300,000 for a highly prospective 80-acre tract. This bid amounts to \$16,250 per acre. Plans are being finalized for the start of Company-operated drilling in Michigan this fall to exploit these acquisitions.

The other exploratory discovery well and the two successful development oil wells drilled during the period were located in the Hamlin Lake area in Western Michigan. This brings to eleven the number of wells in the Hamlin Lake area in which your Company has interests. The Dow Chemical Company is currently completing installations to bring these wells on production. Seismic operations are continuing in Hamlin Lake to map new reefs.

The gas discoveries, as previously discussed in the Company's interim report for the first quarter of 1974, are all located in Canada. Of these, two are located in northeast British Columbia (Windflower-Tattoo area) and four are in Alberta (Dixonville, Notikewin, Wandering River-Pelican and Pinehurst areas). Follow-up drilling programs are planned for these areas as soon as terrain conditions permit.

Your Company has acquired a 16⅔ % interest in approximately 800,000 acres (133,333 net) in the Sevier Basin of the State of Utah. Exploratory plans call for the seismic work which is to be followed by the drilling of one well during late 1974 or early 1975.

Preparations were underway during the latter part of the period for the commencement of 1974 drilling operations in the Labrador offshore region and by mid-July the drillship Pelican was on site and had commenced drilling at the Gudrid G-75 location. Following completion of drilling at this location, it is expected that the drillship will move northward to conduct testing operations at the Bjarni H-81 well which was drilled last year by Eastcan Exploration as operator for the group which includes TOTAL.



## PRODUCTION

Your Company's production of crude oil and condensate during the first six months of this year amounted to 1,158,980 barrels (6,403 barrels per day) representing a decrease of 4% over the comparative total of 1,208,705 barrels (6,678 barrels per day) for the first half of last year. Natural gas sales increased by approximately 25% to an average of 16,368 MCF per day compared with 13,128 MCF per day during the first half of 1973.

## REFINING

During the first six months of 1974, the Alma Refinery processed 6,220,937 barrels (34,370 BPD) of crude oil compared to 6,621,477 barrels (36,583 BPD) for the same period of 1973. This decrease was due to the refinery shutdown in May for clean out and metals inspection which lasted approximately three weeks. The refinery was on stream by June 1 and crude runs averaged 40,823 barrels per day during the month of June. It is anticipated that crude oil processed for the remainder of 1974 should be near capacity.

Under the current crude oil allocation program, your Company was able to purchase for three months beginning July 1st a total of 336,500 barrels of crude oil from major oil companies. This purchase averaged 3,658 barrels per day and, with other purchases of crude oil plus inventory buildup during the May shutdown, will enable the Company to have an adequate supply of crude oil for the balance of 1974.

## MARKETING

Mandatory Federal Allocation regulations continued to be in effect during the second quarter of 1974 for gasoline, middle distillates, propane and residual fuels. These regulations have reduced sales flexibility because of the requirement to sell to the same customers which were supplied in 1972. Despite this, overall refined product sales during the first six months were 3.3% above the same period in 1973 at 315,587,000 gallons.

Gasoline sales were 2.5% below the same period of 1973. Due to the allocation regulations, sales increased in the wholesale channel while the Branded and Best Division sales were down from 1973.

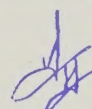
Heating oil sales through normal channels were down approximately 4%. However, an extraordinary one-time sale of the product enabled your Company to have an 8.4% increase over the same period of 1973.

Industrial sales of propane, jet fuel, naphthas, residual fuel and asphalts were up 13.5% over 1973. The increase was due primarily to the sale of jet fuel to the U.S. Government.

Although to date sales and profits in 1974 have been satisfactory, it appears that in the immediate future margins will be reduced. Your Company's sources of crude are such that they presently purchase substantial amounts of high-priced crude from Canada and U.S. The percent of high-priced crude purchased is substantially greater than the average percent of high-priced crude purchased by our major competitors. With the supply of refined products, particularly gasoline, sold by all companies becoming more abundant, your Company is obliged to maintain competitive prices, resulting in these reduced margins.

Despite general inflationary trends, marketing operating expenses were reduced by \$574,000 or 9.7% as compared to the first six months of 1973.

On behalf of the Board of Directors,



ANDRE M. JACMIN  
President

August 15, 1974.

### OPERATING AND LAND DATA

	Six Months Ended June 30	
	1974	1973
Crude oil and condensate production (bbls.)	1,158,980	1,208,705
Average bbls. per day	6,403	6,678
Natural gas sales (Mcf)	2,962,624	2,376,200
Average Mcf per day	16,368	13,128
Refined products sales (bbls.)	7,513,976	7,283,738
Crude oil refined (bbls.)	6,220,937	6,621,477
Gross land holdings (acres)	36,402,031	36,067,292
Net land holdings (acres)	4,261,105	4,324,210



# **CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

(United States Dollars)

	<i>Six Months Ended June 30</i>	
	<u>1974</u>	<u>1973</u> <i>(restated)</i>
Financial resources were provided by:		
Operations		
Net income for the period . . . . .	\$ 4,990,000	\$ 2,005,000
Income charges (credits) not affecting working capital in the period:		
Depreciation, depletion and amortization . . . . .	3,934,000	3,320,000
Deferred income taxes . . . . .	4,853,000	1,500,000
Financial resources provided by operations . . . . .	13,777,000	6,825,000
Additional long-term borrowings . . . . .	26,000	2,073,000
Proceeds from sale of future production . . . . .	1,175,000	—
Sale of properties . . . . .	629,000	587,000
Issuance of common stock . . . . .	8,000	72,000
Other . . . . .	809,000	—
Total financial resources provided . . . . .	16,424,000	9,557,000
Financial resources were used for:		
Capital expenditures		
Petroleum and natural gas interests and production equipment . . . . .	7,800,000	3,265,000
Refining, marketing and transportation . . . . .	1,131,000	1,626,000
Other . . . . .	10,000	10,000
Long term debt paid or reclassified to current liabilities . . . . .	2,106,000	3,850,000
Dividends paid . . . . .	427,000	430,000
Reductions of deferred income . . . . .	2,307,000	418,000
Other . . . . .	—	38,000
Total financial resources used . . . . .	13,781,000	9,637,000
Increase (decrease) in working capital . . . . .	\$ 2,643,000	\$ (80,000)
Changes in components of working capital:		
Working capital beginning of period . . . . .	\$ 27,951,000	\$ 11,493,000
Increase (decrease) in current assets:		
Cash and short term investments . . . . .	(7,357,000)	511,000
Accounts and notes receivable . . . . .	15,088,000	(2,366,000)
Inventories . . . . .	16,613,000	2,808,000
Other . . . . .	426,000	(303,000)
	24,770,000	650,000
(Increase) decrease in current liabilities:		
Notes payable to banks . . . . .	(2,000,000)	—
Accounts payable and other accrued liabilities . . . . .	(17,888,000)	288,000
Accrued taxes . . . . .	(1,973,000)	(620,000)
Current portion of long term debt . . . . .	(266,000)	(398,000)
	(22,127,000)	(730,000)
Working capital, end of period . . . . .	\$ 30,594,000	\$ 11,413,000

# **CONSOLIDATED STATEMENTS OF INCOME**

(United States Dollars)

	<u>1974</u>	<u>1973</u> <i>(restated)</i>
SIX MONTHS ENDED JUNE 30:		
Sales and other income . . . . .	\$ 100,340,000	\$ 53,267,000
Costs and expenses:		
Purchased crude oil, products and merchandise . . . . .	\$ 69,681,000	\$ 29,816,000
Operating expenses . . . . .	8,323,000	7,031,000
Marketing and administrative expenses . . . . .	7,261,000	7,735,000
Depreciation, depletion and amortization . . . . .	3,934,000	3,320,000
Interest . . . . .	1,298,000	1,860,000
Provision for income taxes . . . . .	4,853,000	1,500,000
	\$ 95,350,000	\$ 51,262,000
NET INCOME FOR THE PERIOD . . . . .	\$ 4,990,000	\$ 2,005,000
NET INCOME PER SHARE . . . . .	\$ .39	\$ .21
Average outstanding shares . . . . .	12,784,389	9,489,617
THREE MONTHS ENDED JUNE 30:		
Sales and other income . . . . .	\$ 53,534,000	\$ 26,276,000
Provision for income taxes . . . . .	\$ 1,553,000	\$ 1,000,000
NET INCOME FOR THE PERIOD . . . . .	\$ 1,532,000	\$ 1,329,000
NET INCOME PER SHARE . . . . .	\$ .12	\$ .14
Average outstanding shares . . . . .	12,784,725	9,493,618

NOTES: Net income per share is computed assuming full conversion of Series A Preferred Shares into Common Shares.

Dividends to the Series A Preferred shareholders were at the rate of 35 cents per share for each of the six month periods and aggregated \$427,000 for 1974 and \$430,000 for 1973.

At the instance of the Canadian Provincial Securities Commissions and in accordance with the recommendations of the Canadian Institute of Chartered Accountants, in 1974 the Company adopted, with respect to exploration and development expenditures (and Canadian lease acquisition costs), the income tax allocation method of accounting whereby provisions for income taxes are based on income reported in the accounts. Previously the income tax provisions were computed on the basis of claiming exploration and development expenditures (and Canadian lease acquisition costs) to the extent they were allowable deductions for tax purposes regardless of the treatment followed in the accounts; deferred taxes were provided for all other items.

Also, in accordance with the recommendations of the Canadian Institute of Chartered Accountants, the financial statements of prior periods have been restated to apply the new method retroactively. This retroactive change resulted in a charge to retained earnings at January 1, 1974 of \$8,634,000. This amount represents the accumulated difference between the deferred income taxes which would have been recorded in prior years had the adopted policy been followed in such years and the deferred income taxes actually reported. Net income and net income per share for the year 1973 and the six months ended June 30, 1973 have been restated as follows:

	<u>Year 1973</u>		<u>Six Months Ended June 30, 1973</u>	
	<u>Net Income</u>	<u>Net Income Per Share</u>	<u>Net Income</u>	<u>Net Income Per Share</u>
As originally reported . . . . .	\$ 9,204,000	\$ .92	\$ 3,505,000	\$ .37
Adjustment for change in accounting method . . . . .	(4,071,000)	(.41)	(1,500,000)	(.16)
As restated . . . . .	\$ 5,133,000	\$ .51	\$ 2,005,000	\$ .21

The financial statements include all normal adjustments and accruals, but are unaudited.